

Message Text

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ACTION EB-08

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FM AMEMBASSY PANAMA
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E.O. 11652: N/A
TAGS: EAIR, JA, PN
SUBJECT: THE AIR PANAMA SITUATION

REF: A) STATE 016245; B) PANAMA 0278; C) PANAMA 8971 (12/15/77)

SUMMARY: PANAMANIAN CIVIL AVIATION OFFICIALS ARE AWARE THAT THE U.S. CIVIL AERONAUTICS BOARD COULD RE-EXAMINE AIR PANAMA'S OPERATING PERMIT, BUT THE AIR PANAMA SITUATION IS COMPLICATED AND THE GOP IS OBLIGATED TO FIND A SOLUTION WITHIN NINE MONTHS. THE GOP HAS DISCUSSED THE POSSIBILITY OF TECHNICAL AND ECONOMIC ASSISTANCE WITH SEVERAL FOREIGN AIR LINES. JAPAN AIR LINES COMPANY, LTD. IS NOT INTERESTED IN ENTERING INTO ANY FINANCIAL PARTICIPATION IN AIR PANAMA. END SUMMARY

1. IN A DISCUSSION WITH EMBOFF, THE DEPUTY DIRECTOR OF THE CIVIL AVIATION DIRECTORATE OF PANAMA (DAC), MR. MIGUEL VON SEIDLITZ, COMMENTED THAT RECENT NEWSPAPER ARTICLES (REF B) CONCERNING THE POSSIBILITY OF FINANCIAL PARTICIPATION IN AIR PANAMA BY JAPAN AIR LINES COMPANY, LTD. (JAL) ARE NOT INACCURATE; HOWEVER, NO AGREEMENT HAS BEEN REACHED BETWEEN THE COMPANIES AND VON SEIDLITZ HIMSELF DOES NOT PARTICULARLY FAVOR PARTICIPATION BY THE JAPANESE. VON SEIDLITZ IS AWARE
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THAT THE U.S. CIVIL AERONAUTICS BOARD (CAB) COULD RE-EXAMINE AIR PANAMA'S OPERATING PERMIT SHOULD CONTROL OF THE COMPANY PASS INTO FOREIGN HANDS. HE STATED THAT THE AIR PANAMA SITUATION IS VERY COMPLICATED, AND THAT THE GOP IS OBLIGATED BY AGREEMENT WITH IBERIA AIR LINES OF SPAIN TO FIND A SOLUTION TO THE AIR PANAMA PROBLEM WITHIN THE NEXT NINE MONTHS.

2. BACKGROUND: UTILIZING THE CONNECTIONS HE HAD IN SPAIN DURING THE REGIME OF GENERAL FRANCO, PANAMA'S FORMER MINISTER OF FOREIGN RELATIONS, FERNANDO ELETA, REACHED AN AGREEMENT IN 1967 WITH IBERIA TO ESTABLISH AIR PANAMA, WITH ELETA OWNING 51 PER CENT OF THE COMPANY, BUT WITH IBERIA PUTTING UP MOST OF THE MONEY (\$6 MILLION). VON SEIDLITZ SAID THAT ELETA'S INITIAL INVESTMENT WAS APPROXIMATELY \$50,000. AND THAT ANY SUBSEQUENT INVESTMENTS BY ELETA HAVE NOT BEEN SIGNIFICANT. ALL THREE OF AIR PANAMA'S 727 BOEING AIRCRAFT WERE PURCHASED SECOND-HAND FROM JAPAN, ONE FROM "ALL NIPPON AIRWAYS" AND TWO FROM JAL. THE FINANCING FOR THE PURCHASE OF THESE AIRCRAFT WAS ARRANGED BY THE GOP THROUGH IBERIA AND THE BANCO EXTERIOR OF SPAIN. THIS PURCHASE ABSORBED THE BULK OF IBERIA'S ORIGINAL \$6 MILLION INVESTMENT IN AIR PANAMA. AIR PANAMA HAS SINCE ACCUMULATED A TOTAL DEBT IN THE NEIGHBORHOOD OF \$19 MILLION, THE BULK OF WHICH IS OWED TO IBERIA. WHEN IBERIA SET DECEMBER AS THE MONTH FOR LIQUIDATING ITS AIR PANAMA ASSETS, THE NATIONAL FINANCIAL CORPORATION OF PANAMA (COFINA) STEPPED IN TO PAY OFF THE ORIGINAL \$6 MILLION AND ASSUME RESPONSIBILITY FOR SETTLING THE REMAINDER OF THE DEBT TO IBERIA. COFINA'S ACTION IS DISCUSSED IN REF C). ALTHOUGH ON PAPER FERNANDO ELETA OWNS THE CONTROLLING INTEREST IN AIR PANAMA, VON SEIDLITZ POINTED OUT THAT IN ACTUALITY THE GOP NOW CONTROLS AIR PANAMA.

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3. VON SEIDLITZ EXPLAINED THAT THE GOP IS NOT INTERESTED IN RETAINING CONTROL OF AIR PANAMA. ASIDE FROM TRYING TO STRAIGHTEN OUT THE INTERNAL ADMINISTRATION OF THE COMPANY, THE GOP AND DAC HAVE BEEN SEEKING TECHNICAL ASSISTANCE. THEY HAVE ALSO BEEN CONSIDERING ECONOMIC ASSISTANCE BECAUSE OF THE NEED TO PAY OFF THE LARGE DEBT. HE MENTIONED THAT "FINNAIR" HAD APPEARED INTERESTED IN PROVIDING SOME TECHNICAL ASSISTANCE. A GROUP OF FIVE SMALL PRIVATE PANAMANIAN AIRLINES, OPERATING OUT OF PUNTA PAITILLA AIRPORT, HAVE EXPRESSED AN INTEREST IN ACQUIRING AIR PANAMA. ALTHOUGH THE GROUP HAS THE NECESSARY OPERATING CAPITAL, VON SEIDLITZ WAS UNCERTAIN AS TO THEIR TECHNICAL AND MANAGERIAL CAPABILITIES. THE GROUP HAS ASSUMED THEY WILL SUCCEED IN GAINING CONTROL OF AIR PANAMA AND HAS CONTRACTED A TECHNICAL ASSISTANCE AGREEMENT WITH A U.S. FIRM, "INTERNATIONAL AIR SERVICE COMPANY (IASCO)."

4. THE EMBASSY HAS LEARNED THAT JAL IS NOT INTERESTED IN ENTERING INTO PARTICIPATION IN AIR PANAMA AT THIS TIME. JAL REPRESENTATIVES INFORMED AIR PANAMA OFFICIALS

THAT THEY WOULD NOT CONSIDER PARTICIPATION UNLESS
AND UNTIL THE ADMINISTRATIVE INEFFICIENCY OF THE COMPANY
IS ELIMINATED. JAL FINDS IT INEXCUSABLE THAT AIR PANAMA
HAS AN OVERALL DEFICIT OF \$19 MILLION, WHEN IT IS AVER-
AGING BETTER THAN 50 PER CENT OCCUPANCY ON ALL PASSENGER
FLIGHTS. THIS DEFICIT INDICATES MALADMINISTRATION AND
POSSIBLY CORRUPTION, THEY FEEL. CONSIDERING THE COMPANY'S
INEFFICIENT ADMINISTRATION, JAL DOES NOT LOOK FAVORABLY UPON
THE FACT THAT THE CONTROLLING INTEREST IN AIR PANAMA IS IN THE
HANDS OF ONE INDIVIDUAL.

5. COFINA'S FINANCIAL SUPPORT OF AIR PANAMA IS A TEMPORARY
STOPGAP MEASURE, AND LONG BEFORE COFINA PAID THE \$6 MILLION
BACK TO IBERIA, AIR PANAMA HAD BEEN SEARCHING FOR A BENEFACTOR
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TO BAIL IT OUT OF ITS FINANCIAL DIFFICULTIES. IN ADDITION
TO JAL, AIR PANAMA OFFICIALS HAVE MADE OVERTURES FOR
ASSISTANCE TO LUFTHANSA, KOREA AIRLINES AND POSSI-
BLY ONE OF THE U.S. AIRLINES. GIVEN AIR PANAMA'S FINANCIAL
CONDITION, NONE OF THESE COMPANIES DISPLAYED ANY SERIOUS
INTEREST IN REACHING AN AGREEMENT WITH AIR PANAMA.

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6. THE INITIAL INVITATION FOR JAL TO SEND REPRESENTATIVES
TO PANAMA FOR DISCUSSIONS CONCERNING AIR PANAMA WAS RE-

CEIVED IN JANUARY 1977. AT THAT TIME JAL WAS INTERESTED IN AIR PANAMA FROM THE STANDPOINT OF THE LATIN AMERICAN AIR ROUTES IT HAD TO OFFER; HOWEVER IN MARCH, UPON LEARNING THE FULL EXTENT OF AIR PANAMA'S FINANCIAL DIFFICULTIES, JAL DROPPED ALL INTEREST IN PURSUING AN AGREEMENT WITH AIR PANAMA.

7. MAKING USE OF HIS CONTACTS WITHIN THE PANAMANIAN GOVERNMENT, Eleta was able to have the GOP indirectly bring pressure to bear on the transportation ministry of Japan to urge JAL to dispatch representatives to Panama for discussions with Air Panama officials. This was accomplished through the Panamanian Ambassador to Japan's use of an influence peddler, Mr. Okawa (phonetic), who was close to former Prime Minister Kishi (phonetic), who in turn maintained a degree of influence in the transportation ministry.

8. FROM A PRACTICAL STANDPOINT, JAL COULD NOT SIMPLY IGNORE THE PLIGHT OF AIR PANAMA. JAL CONTINUES TO MAINTAIN AN INTEREST IN INCREASING ITS AIR TRAFFIC THROUGHOUT LATIN LIMITED OFFICIAL USE

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AMERICA, WHICH COULD EASILY RESULT IN A NEED TO UTILIZE PANAMANIAN AIR SPACE IN THE NEAR FUTURE. JAL REPRESENTATIVES HAVE IN FACT OFFERED TECHNICAL ASSISTANCE TO AIR PANAMA AND HAVE SUGGESTED THE POSSIBILITY OF PROVIDING AN ADVISOR TO IMPROVE ADMINISTRATION WITHIN THE COMPANY. HOWEVER, NO FINANCIAL PARTICIPATION IS CONTEMPLATED.
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